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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHGV/USMISSION GENEVA 0959
RUEHVEN/USMISSION USOSCE 2968
RUCNDT/USMISSION USUN NEW YORK 2353
RUEHNO/USMISSION USNATO BRUSSELS BE
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C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000680

SIPDIS

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SUBJECT: KYRGYZ GOVERNMENT TURNS TO "EXPERTS" FOR ACTION ON
ECONOMY

REF: BISHKEK 593

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Classified By: Amb. Marie L. Yovanovitch, Reasons 1.4 (b) and (d).

11. (C) Summary: Faced with rising inflation, a growing budget shortfall, and possible energy shortages, the Kyrgyz government has formed three "experts" groups to develop plans for preventing an economic crisis in the country. According to an administration advisor, government ministries are not prepared to deal with a problem of this scale, and the three groups have been tasked to come up with ideas on taxes, expenditures, and external loans and financing that will have an immediate impact. The advisor raised concerns about possible spontaneous social unrest or demonstrations in the autumn among groups, such as pensioners and transportation workers, most severely affected by the economic situation. End Summary.

12. (C) An advisor to the presidential administration, Valentin Bogatyrev, told the Ambassador June 25 that the Kyrgyz government was not prepared to deal with the looming economic crisis. Even with inflation up to 25%, a growing budget shortfall of up to \$250 million, and possible energy shortages, many in the government still do not grasp the scope and immediacy of the problem, according to Bogatyrev. He said that the government has briefed President Bakiyev on the need for "belt tightening," but neither the Ministry of Finance nor the Ministry of Economic Development and Trade has come up with specific ideas about what to do.

13. (C) According to Bogatyrev, it will take at least a year for the government's "new economic program" (announced in January, with the goal of improving the business climate) to have an impact, and administration officials are concerned this fall and winter will be difficult. Given the lack of ideas from inside the government, Bogatyrev said, the administration has formed three groups of "experts" that have been tasked with developing a serious "anti-crisis" plan. He explained that one group will focus on tax issues, and a second will concentrate on expenditure and fiscal issues.

The third group will look at the situation as a whole, and in one week the groups were scheduled to come together and prepare official recommendations. The "experts" include people from inside government, such as the Prime Minister's Chief of Staff Murat Ismailov, as well as outsiders, such as UNDP advisor Leonid Komarov and Ulan Sarbanov, a former chairman of the central bank and USAID advisor (who had been on the outs with the administration for the past three years). Bogatyrev's opinion of his fellow experts was not high.

14. (C) Among the measures to be considered will be steps to reduce government expenditures, securing revenues from privatization of certain assets, and improvements to business conditions that would increase tax revenues. The groups will also examine external financing options. Bogatyrev said that the administration now favored continuation of Kyrgyzstan's IMF program. (Note: Kyrgyzstan's most recent IMF program concluded in May. Separately, IMF representatives informed us on June 27 that the Kyrgyz government has agreed to a new three-year IMF program, but the details remain to be worked out. End Note.)

15. (C) Bogatyrev said that if the economic situation continued to deteriorate, there was a possibility of protests in the autumn. The political opposition would try to exploit the situation, but he dismissed the opposition's ability to organize or lead such protests, as they are weak and divided. Nevertheless, the chance of unrest would be real if the government did not find a way to get support to the groups adversely affected by falling living standards. He said that pensioners and transportation workers, for example, were already being squeezed by inflation and rising fuel prices,

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and they might organize local protests (as already had occurred in a couple of instances). He said that these kinds of spontaneous demonstrations were much more dangerous to the public order than opposition-led demonstrations because "there is on one in charge and no one to negotiate with."

16. (C) Comment: While Bogatyrev does not have an official position within the administration, he has been a reliable reporter of administration thinking and plans. Bogatyrev's pessimism about Kyrgyzstan's economic future and the government's ability to deal with it stands in stark contrast to his previous, more measured view. As we have noted (reftel), the economic situation -- growing inflation, budget shortfalls, and water shortages -- threatens to overwhelm the government's ability to craft a comprehensive strategy. We are working with other donors to identify how we can help the government address these multiple challenges.
YOVANOVITCH